Exploring Opportunities for Private Investment in Public Infrastructure.

Hearing before the Senate Committee on Banking, Housing and Urban Affairs

Testimony by Jane F. Garvey, Chairman,

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Good Morning, Chairman Scott, Ranking Member Menendez and Members of the Subcommittee.

My name is Jane Garvey and I am Chairman of the Meridiam Infrastructure Fund, North America. It is my pleasure to be here today to discuss the opportunities and the challenges for private investment in the United States transit system.

Meridiam is a long-term investor in public-private partnerships, or P3s. Our investors are primarily public pension funds or institutional investors who embrace the long term nature of the fund and are committed to the notion of building public infrastructure. While there is a broad range of definitions for P3s, fundamentally, it is a legally binding contract between the public sector and a private company where the partners agree to share the risks and rewards that are inherent in an infrastructure project. In the case of some P3s, the private sector assumes all of the revenue risk and collects tolls or fees generated from the project

Meridiam's business model contemplates an agreement where we, the private sector, designs, builds, finances, operates and maintains the facility for a pre-determined period of time. In exchange, the public sector provides a reoccurring

payment based on the condition of an asset – In other words, we are paid only if we meet certain performance standards set by the public sector.

Currently, we have 33 billion under management and 39 projects in operation worldwide. Our investments have been across a number of asset classes including transportation, power and social infrastructure but what links them is their social importance to the communities they serve.

Let me be clear – Public-private partnerships are not for every project. However, large, complex projects that lend themselves to innovation are often good candidates. There are certain characteristics that we in the private sector look for – and criteria that are equally important to public sector as well.

1. Strong, authorizing legislation that gives clarity and direction to the public/private relationship. Currently about 33 states have the ability to enter into P3 agreements. Legislation that provides clear guidance and direction is an essential threshold for the private sector.

2. Politically smart projects: Projects should be of critical importance to the community. In the case of transportation, the project should be part of part of a larger plan that is integral to an overarching view of the future of the community. This implies an open public policy debate and discussion early in the process. What public policy goals are important to the community, how are they reflected in a P3 relationship? These projects are long term in nature and extend far beyond the term of one administration.

Projects that reflect clear policy goals that are laid out early in critical to success and give the public sector an understanding of what is important to the community as well.

3. Active engagement of the stakeholders: These are complex projects, often it is a "first time" approach. Active engagement of the stakeholders throughout the process, not just the early stages, is critical for success.

4. Determining the revenue stream: As has been said many times, P3s are not "free money". Lack of a robust revenue stream has been an impediment to many transit projects and P3's are no exception. Fares do not generate enough to cover the long term costs. Some communities, such as Los Angeles and Denver, have opted to pass a sales tax dedicated to creating a long term revenue stream. Others are considering impact fees, development rights along the transit corridor or a combination of multiple streams.

5. Risk sharing: Risk sharing may be among the more complicated aspects of P3's and can take many forms. The public sector often takes on the environmental and permitting risk while the private sector assumes the risk for design, all the construction risk, financing risk and the operating and maintenance of the facility. But as is often the case, the devil is in the details. For example, during the design phase of a project, is the private

sector free to design to a performance measure or are the same design reviews that are used in traditional delivery models still employed here, creating a duplicative layer of review? Similarly, during construction, is the contractor free to employ techniques that meet the performance standards or are they expected to follow more prescribed techniques? And is the revenue risk transferred entirely to the private sector or is it an availability structure where the private sector is paid if it meets performance standards or metrics? These are important questions and for a project to succeed, those issues should be understood up front.

6. Institutional capability: It is critical to have an empowered dedicated P3 public sector team. Centrally located and a team with the technique expertise to oversee what is a complicated process. Often the responsibilities for moving through the process are shared across many agencies or departments in government. This can create delays as well as confusion for proposers who may have questions or concerns. A focal point, or a "one stop shopping" could help eliminated the inefficiencies that can arise during the process.

7. Political Leadership. The federal government has a key role in fostering P3 projects. However, there is no substitute for a strong, local leadership to advocate for the project and in this case for an alternative delivery model. It is generally true for any large, complex infrastructure project and I would

say particularly true for P3's. These projects only suceed with strong local leadership.

When I look at the lessons learned from established P3s, particularly here in the US, the extent to which they are successful depends, in part, on recognizing and embracing these elements I have outlined:

- Clear legislation,
- Understanding of revenue risk,
- Level of expertise
- Transparency
- An identified revenue stream
- And political leadership.

There are certain to be some growing pains with our experiences particularly in the US. For example, how does the contract deal with what could be unanticipated events far into the future perhaps in year 20 or 25? Is there some sort of 'elasticity provision" that could give both parties an opportunity to revisit a narrow provision in the contract without opening up the entire contract"? Are the roles of each entity public and private clearly understood particularly in the area of "risk sharing"?

In the case of the private sector, it is essential for us to fully understand the political considerations and challenges that the public sector faces. I believe we can better explain some of the advantages of the P3 model, but also fully recognize it is not for every project and the public policy considerations may lead

the public sector to another conclusion. And while we urge transparency on the public side, it is equally important for us to be transparent in our goals, approach and revenue returns as well.

As I stated, P3s are not for every project. If a public sector entity is considering this approach solely for financial reasons, it is probably not the right model. But it is one more "tool", one more approach for the public sector to consider as they are looking at solutions for their infrastructure investments. A P3 approach allows for appropriate sharing of risk, encourages the private sector to be innovative and efficient and gives the public sector a fixed price for all the elements (design, construction, operation and maintenance). This allows a real opportunity for the public sector to anticipate and plan well into the future. For me the real benefit of a P3 is the ability to deal with a challenge that has long plagued the aging infrastructure in this country and that is the ability to build in life cycle costs. It is a recognition that construction of a project is step one and that maintaining that infrastructure throughout its useful life is equally necessary to the long-term success of a project.

I applaud this Committee's interest in this issue. Working together, I am confident we can create constructive partnerships between the public and private sectors, partnerships that benefit our communities and help to improve our national infrastructure.

Again, thank you for the opportunity to appear before your Committee. I am happy to answer questions.

Meridiam Infrastructure Fund, North America

Examples of U.S. Projects

Port of Miami: This project comprises the construction and management of a 1.6 km tunnel linking the Port of Miami to the MacArthur Causeway. The concession company receives FDOT payments over the term of the concession based on the availability of the tunnel.

- Overall investment: $903 M
- Concessionaire: MAT Concessionaire, LLC
- Partners: Meridiam (93.4%), Bouygues Construction (6.6%)
- Public partner: Florida Department of Transportation (FDOT), Miami-Dade County, City of Miami
- Date of entry into service: August 2014
- Concession period: 35 years

Presidio Parkway: This project is a design, build, finance, operate, and maintain concession in San Francisco, California. The Project will replace the current 1.6 miles (2.6 km) Southern approach to the Golden Gate Bridge with a parkway facility, two pairs of cut-and-cover tunnels, a high viaduct, a low-causeway and landscaped medians.

- Overall investment: $365 M
- Concessionaire: Golden Link Concessionaire (GLC)
- Partners: Meridiam Infrastructure (50%), Hochtief (50%)
- Public partner: California Department of Transportation (Caltrans), San Francisco Transportation Authority (SFCTA)
- Current status: Construction with date of entry into service as Fall 2015 (provisional)
- Concession period: 33.3 years

IH-635 (LBJ) Managed Lanes: This project consists of reconstructing the motorway alignment to provide general purpose lanes and 13 miles of new Managed Lanes as well as the construction of new frontage roads on the IH-635 road that currently serves as the main circumferential roadway in the Dallas region in the Dallas-Fort Worth metropolitan area (the "Metroplex"), the fourth largest metropolitan area in the United States.

- Overall investment: $2.6 B
- Concessionaire: LBJ Infrastructure Group (LBJIG)
- Partners: Meridiam Infrastructure and co-investors (42.4%), Cintra (51%), Texas Police and Fire Pension System (6.6%)
- Current status: Construction with date of entry into service: Fall 2015 (provisional)
- Concession period: 52 years

North Tarrant Express project: The NTE project includes the financing, design and total rebuilding and expansion of 21.4 km length sections of the existing roadway, including frontage roads and the addition of tolled managed lanes. The roadway borders a number of communities to the north and east of Ft Worth, Texas. The project is financed by a mix of private and public sources.

- Overall investment: $2.1 B
- Concessionaire: NTE Mobility Partners
- Partners: Cintra (57%), Meridiam and co-investors (33%), Dallas Police and Fire Pension System (10%)
- Public partner: Texas Department of Transportation (TxDOT)
- Date of entry into service: October 2014 (nine months ahead of schedule)
- Concession period: 52 years

Long Beach Courthouse: This social infrastructure project includes the design, construction, financing, operation and maintenance of the new court building which replaces the current Long Beach Courthouse completed in 1959. The new Courthouse comprises 31 courtrooms, with accompanying holding cells and administrative office space. The project also includes renovation and operation of a car parking facility and the provision and management of commercial office space and retail space within the Courthouse.

- Overall investment: $495 M
- Concessionaire: Long Beach Judicial Partners
- Partners: Meridiam and co-investor (100 %)
- Date of entry into service: Fall 2013
- Concession period: 38 years